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GENERAL

1. Britain proposes sale of trawlers to Soviet bloc:

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Britain has asked COCOM to approve the sale of five old steam trawlers to Poland and 27 new diesel trawlers to the USSR. The British request failed to cite a specific quid pro quo

for the trawlers, an argument which has previously been used to justify deviation from controls. Instead, it pointed to the importance of maintaining a healthy shipbuilding industry and counteracting signs of unemployment, and argued that the proposed sale might lead to a reversal of the present decline of British-Soviet trade.

Comment: This request apparently ends British support of the American efforts to control Western sales of ships to the Orbit. In view of the strong pressures by most COCOM countries to relax controls, such a British policy reversal might well threaten the entire COCOM trade control program.

FAR EAST

2. Crisis in Japanese-Korean negotiations seen by end of October:

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Japanese officials feel that their current negotiations with Korea will reach a crisis by the end of October, at which time Korea's willingness or unwillingness to modify its proposals sufficiently to permit a settlement will be apparent, according to Ambassador Allison. The Japanese believe that the Koreans have increased their previous demands and that the latter are confident that continued pressure will force Japan to accept.

The ambassador notes that the Japanese appear willing to make substantial concessions on the fisheries issue by proposing the reservation of areas for Korean fishing on a prewar basis. They also have indicated a readiness for mutual cancellation of property claims.

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Comment: A member of the Korean mission in Tokyo on 15 October expressed the opinion that United States mediation would be necessary to save the conference.

3. Substantial numbers of Korea war prisoners may elect repatriation:

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[Redacted]

According to Ambassador Briggs there is growing concern among American correspondents in Korea that the rules covering explanations to prisoners, which make possible protracted and repeated questioning of individuals, may enable the Communists to separate anti-Communist leaders from their prison compounds and cause "very appreciable numbers" of prisoners to elect repatriation.

Comment: While only 10 Chinese out of 500 decided to return home during the first explaining session on 15 October, large-scale shifts to acceptance of repatriation remain possible as a result of sustained, individual questioning.

The prisoners are currently divided into compounds of about 25 men, each under the control of a compound leader. The Communists are expected to make a more or less perfunctory explanation to the bulk of the prisoners followed by concentrated questioning of the leaders, hoping that if the leaders can be persuaded to change, the remaining prisoners will elect to return also.

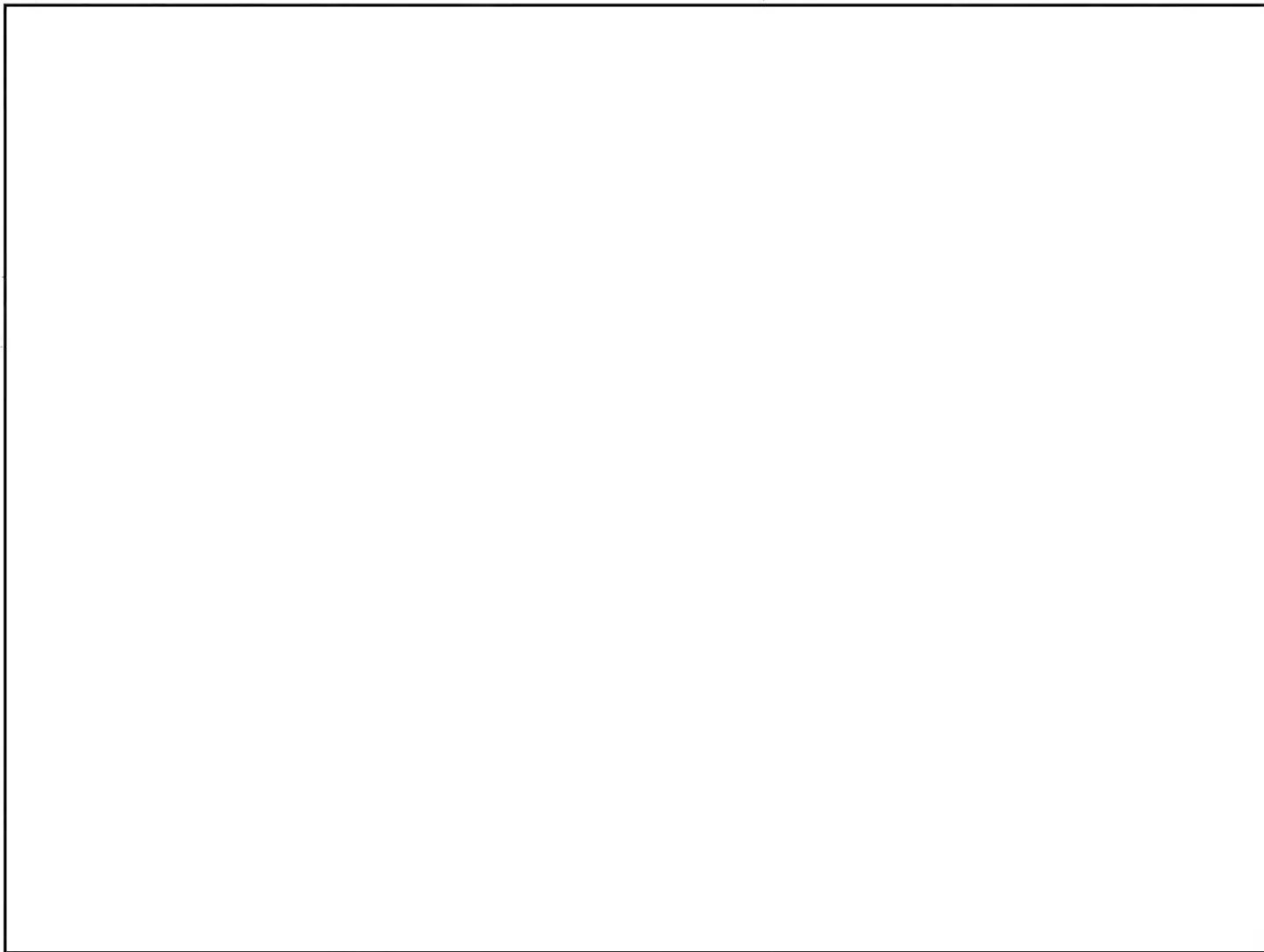
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[Redacted]

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EASTERN EUROPE

6. Trieste decision may have caused differences among Yugoslav party leaders:

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The American chargé in Belgrade reports that there are credible rumors in Belgrade that the Trieste decision has precipitated quarrels in high party circles. He believes

that these disagreements may be manifesting themselves in the current attempts to close the US information centers, which has always been a goal of the left wing of the party.

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Comment: Since the break with the USSR, there have been reports of differences among Yugoslav Communist leaders over the speed and degree of rapprochement with the West and the extent to which Yugoslavia should allow Western influences in the country.

The Anglo-American decision on Trieste has no doubt brought these differences to the surface, but probably does not represent a threat to the basic loyalty of the party to Tito.

WESTERN EUROPE

7. Trieste population depressed and alarmed:

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Most of the Trieste population is fearful that Tito will march into Zone A, [REDACTED] Many of the prominent Italian irredentists have left the city, and more than twelve billion lire (\$20,000,000) was reportedly transferred out of Trieste in the first five days following the 8 October announcement. Business has reportedly been very hard hit.

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Comment: Most of the Trieste political parties are extremely dissatisfied with the Anglo-American decision. The Independentist and pro-Yugoslav parties are particularly worried about their future under Italian rule, while most of the pro-Italian parties fear that Zone B has been lost for good. There is strong belief in most political circles, however, that the Allies will not actually withdraw from Zone A.

8. Italy maintains "firm attitude" on Trieste:

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An Italian Foreign Ministry official told Ambassador Luce on 14 October that his government still adhered to its original

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position that the 8 October solution is only provisional and that Italy must be in effective possession of Zone A before agreeing to a conference. He also dismissed the concept of a demilitarization of both zones, saying that such a move would still leave Yugoslav forces encircling the entire Free Territory and make a constructive solution impossible.

Defense Minister Taviani suggested, however, that Pella might offer to make a public statement repudiating aggressive action to fulfill Italian claims to Zone B.

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9. Pro-EDC leaders in West Germany reported increasingly restive at French delays:

American officials in Bonn warn that pro-EDC politicians in West Germany are growing impatient with continual French procrastination on ratifying the EDC. Heinrich von Brentano,

strong supporter of the treaty and probably minister for European affairs in the new cabinet, told American officials on 13 October that unless the EDC treaty comes into force by March 1954 at the latest, West Germany will be forced to insist on new arrangements for a defense contribution.

Comment: This is the first statement from a pro-EDC leader in West Germany suggesting a deadline after which the Bonn government would formally ask that an independent German army be admitted to NATO.

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LATIN AMERICA

10. "Economic colonialism" to be stressed by Brazilian president in forthcoming speech:

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President Vargas will use "the end of economic colonialism" as his theme in a public address next week at the inauguration of a new petroleum refinery, according to [redacted]

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[redacted] the American embassy in Rio de Janeiro.

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The speech will allegedly be related to a 12 October pronouncement favoring the independence of European colonies in the western hemisphere.

Comment: Vargas' address can be expected to give added impetus to the current Communist upsurge in Brazil. Agitation against "economic colonialism" has been one of the most successful Communist propaganda lines in recent years.

Since the inauguration of a petroleum refinery is to be the occasion of the speech, Vargas presumably will publicly endorse the recent congressional action excluding foreign participation in Brazilian oil exploitation, thereby making it more difficult for his government to admit foreign companies under administrative rulings in the future.

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